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THE SOVIET ECONOMY

- 2 -

General Characteristics of Soviet GNP:

Soviet priorities are reflected in the relative efficiency of various sectors of the economy. The Soviets are most efficient in the production of military equipment and producer durable goods. They are least efficient in agriculture and consumer goods. When one converts Soviet gross national product by sector into US prices, using appropriate ruble-dollar ratios, and compares the results with the US gross national products, the differences in structuring of the two economies becomes rather striking.

- 4 -

Industry

The USSR has a wide variety of minerals. Inadequate allocations of investment funds in the past, however, have resulted in mounting production shortfalls in some instances. Such shortfalls contributed to the decision to abandon the Sixth Five Year Plan (1956-1960). Current plans emphasize development of ferrous metallurgy in the east, and apparently during the 1960's a third metallurgical base is to be established in Siberia and Kazakhstan, supplementing the existing bases in the Urals and the Ukraine. Soviet production in relation to world output of important metals is around 20 percent for iron ore, pig iron, and crude steel and around ten percent for the more important non-ferrous metals.

The USSR is practically self-sufficient in regard to all types of primary energy production. In relation to world output the USSR produces about 20 percent of the coal and ten percent of the crude oil and electric power.

The present Soviet concern about raw material is the cumulative result of a succession of planning decisions which have stressed current growth of industrial output to the detriment of investments in raw materials exploitation facilities necessary for expansion in subsequent period. In response to the emergent raw materials problem, somewhat complicated by the satellite uprisings in the fall of 1956, Soviet planners apparently hope to provide a "breathing spell" by planning extremely modest output increases for 1957 and 1958.

- 5 -

Last fall Khrushchev gave estimates for the levels of production of various important items fifteen years hence. Attainment of these goals would bring the USSR roughly up to the present position of the US, and Khrushchev feels the gap between the two countries will be considerably reduced even though the US may make progress also.

(See Chart)

Transportation

Transportation in the USSR is largely handled by the railroads but while modernization and expansion of railways continue, civil air facilities are also being rapidly developed to help support economic growth. Railroads carry about 85 percent of freight in the USSR, a considerably larger proportion than the US figure of 49 percent. The rail net, of which about 30 percent lies east of the Urals, is broad gauge (5') and more than 76,000 route miles in length--second only to that of the US in this respect. The railroads are currently being converted from steam to electric and diesel traction.

Motor transport in the Soviet Union is negligible with only about 141,000 miles suitable for all weather operations. The merchant fleet, approximately 800 vessels, handles about five percent of total freight traffic but is handicapped by obsolescence. Modernization efforts are being made and the USSR makes heavy use of western vessels for its expanding trade with the free world. The inland waterway system consists of about 81,000 miles of water routes but heavy use of this system is hindered by the north-south flow of the main rivers and by unpredictable weather conditions.

- 6 -

AEROFLOT, the USSR's civil air carrier, has improved its domestic service in the last two years and has expanded its service to non-bloc countries although the percentage of traffic it carries is probably still negligible. Air agreements have been concluded with Finland, Austria, Afghanistan, Yugoslavia, Norway, Denmark, Sweden, and the UK. The first Soviet jet transport, the TU-104, appeared outside the bloc in March 1956 and is being used increasingly on both domestic and foreign routes. Other new aircraft including the turboprops Moskva (IL-18) and Ukraina (AN-10) are to be placed on regular routes soon.

Agriculture

The historical neglect of agriculture in the USSR has restricted the rate of increase in the standard of living for an expanding population in the past. Recently, however, the Soviet Union has let up a little on its policy of self-sufficiency in agricultural products and has been accepting some surplus agricultural commodities from underdeveloped countries as payment for industrial goods. It has also begun to give unusual attention to increasing domestic agricultural production and to "catching up with the west" in its per capita production of agricultural products. One of the most recent moves to increase the efficiency of Soviet agriculture was in January of 1958 when Khrushchev proposed the greatest organizational change since since the collectivization of Soviet agriculture in the 1930's, the reorganization of the machine tractor stations. These traditional strongholds of economic and political control in the countryside are to be converted to repair stations and their machinery sold to the

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collective farms.

Grain and meat are among the country's most important agricultural products. The Soviet Union is one of the world's largest grain producers and normally enters the grain export market, although to a much lesser extent than in the prerevolutionary period. Total grain production in 1957 was around 100 million metric tons, a drop from the peak year of 1956 when the grain harvest was estimated at approximately 115 million metric tons. Substantial increases in meat and milk production in 1957 over 1956 resulted from an increase in fodder available from the record 1956

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Consumer Goods

- 8 -

per capita consumption in the USSR may go up about 20% over the next five years.

Soviet Foreign Trade

Foreign trade is used as a political instrument rather than to economic necessity by the Soviet Union. However, since Stalin's death, the basically autarchic attitude has been partly modified to allow economic interdependence among Communist bloc countries. The postwar Stalin edict against obtaining even that which was drastically superior and less expensive from the West has been abandoned.

Soviet foreign trade during the past two years with the non-Communist world has increased at a more rapid rate than that with the bloc. Estimates for 1957 indicate that nearly all of the \$1 billion increase in foreign trade is accounted for by expanded trade with the free world. In 1957 Soviet foreign trade totaled \$8.25 billion of which free world trade equaled about \$2.75 billion.

About 70 percent of the USSR's increased non-bloc trade in 1957 was with the industrial nations of Western Europe. An increasing percentage of purchases from these countries is composed of manufactured goods including machinery and equipment for Soviet industry.

The large single items of Soviet imports from industrial countries are ships, and iron and steel products. Trade returns indicate that the USSR is widening its range of machinery and equipment purchases, however. In 1957 the USSR imported large numbers of turbines and other

- 9 -

equipment for the development of its electrical power, as well as significant imports of electrical motors. It is also increasing purchases of equipment for consumer goods industries such as textile mills, food processing plants and tobacco factories.

On the other hand, the USSR is also exporting a wider range of manufactured items to the free world. Such exports are made largely to the underdeveloped countries. Soviet trade with these areas is growing rapidly and in 1957 totaled about \$700 million, almost double that of the preceding year. At least one-third of Soviet exports to these areas now involve machinery, transport equipment and other manufactured goods.

These exports are expected to grow as the USSR further initiates deliveries under its economic development loans providing for the construction of steel plants, machine producing facilities, and a wide variety of consumer goods factories as well as equipment for power development and water conservancy. The USSR is also exporting thousands of vehicles annually to the underdeveloped areas.

The Outlook

The face of the Soviet economy 15-20 years from now and consequent industrial military posture as well as the standard of living of the average Soviet citizen depends on the future rate of growth. From 1950-1965 growth of GNP averaged about seven percent per year.

Present Soviet plans for the next 15 years imply a slight decline--to about 5.5 to 6 percent a year.

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- 10 -

The slight slowdown results partly from raw material problems which have arisen as the growth of the economy has demanded the exploitation of less favorably located mineral deposits. The decline has also resulted from some diversion of resources to housing and agriculture at the expense of heavy industry. This diversion,

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~ to management and labor alike.